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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of

Amendment of Parts 65 and 69 of
the Commission's Rules to Reform
the Interstate Rate of Return
Represcription and Enforcement
Processes

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CC Docket No. 92-133

ORIGINAL
FILE

COMMENTS OF SOUTHWESTERN BELL TELEPHONE COMPANY

Southwestern Bell Telephone Company (SWBT) hereby files
its comments in the captioned docket.

SWBT fully supports the USTA comments in response to CC
Docket No. 92-133. The laudable goals of simplification and
streamlining are clearly in the public's interest. The experience
gained in prior represcriptions testifies to the need for
simplification. While SWBT agrees with all issues raised in the
USTA comments, SWBT will focus on (1) the trigger mechanism for
establishing the framework for beginning a represcription
proceeding, (2) the use of Bell Operating Company (BOC) data for
determining cost of debt and capital structure, and (3)
recommendations for developing cost of equity estimates.

One of the most significant improvements to the Part 65
rules would be the incorporation of a trigger mechanism in place of
the calendar approach to represcription proceedings. A widely
accepted and readily available measure of general cost of capital
trends would serve as a reliable trigger, satisfying the
Commission's concerns that such a measure be indicative of a
"significant change in capital markets that is likely to persist

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over time."¹ Such a measure would be the yield on Aa rated public utility bonds, which would be reflective of the risks faced by exchange carriers and of the long-term nature of investments made by these carriers, and which also would be easily observed and obtainable. To meet the Commission's criterion of a significant change, the trigger must be outside a band around a predetermined base rate; to satisfy the criterion of a persistent change, the trigger must be outside that band for a sufficiently long time. SWBT thus supports USTA's suggestion that a represcription process commence whenever there has been a 150 basis point shift in the six-month moving average of Aa public utility bond yields (as published in Moody's Bond Record), if the shift persists for six consecutive months. The shift would be measured against a base rate computed at the completion of this rulemaking using the same bond yield data. The use of such a semiautomatic trigger would allow the Commission to seek significant additional data to determine whether to begin a represcription.

The Commission has suggested that it will adopt presumptive or conclusive methodologies for determining cost of capital, except when estimating cost of equity.² The Commission should not prohibit the use of any methodology in a prescription proceeding. Presumptive or conclusive methodologies in effect preclude the use of other methodologies.

Simplification is needed in capital structure and cost of

¹ *Notice of Proposed Rulemaking*, (NPRM) CC Docket No. 92-133, para. 21.

² *Id.*, para. 46-47.

debt determinations. The most appropriate capital structure for determining a rate of return is the composite capital structure of the BOCs. These are separate legal and financial entities with separate and distinct capital structures. Interstate rate bases are directly supported by these capital structures. These actual capital structures reflect the business risks faced by the exchange carriers and are scrutinized by state regulatory commissions and independent rating agencies. The capital structures of the Bell Regional Holding Companies should not be used. They are inappropriate because they incorporate the business risk inherent in all holding company operations rather than the relevant financial risk inherent in providing interstate access service. The actual BOC composite capital structure is available from Form M data, already on file with the Commission, and is straightforward. An example of its calculation is provided in the USTA comments.

USTA's recommended cost of debt calculation is consistent with its recommendation for calculating capital structure. The average composite BOC cost of debt is easily determined from available Form M data with minor exceptions detailed in the USTA comments. This calculation is based on the interest method and conforms with the Uniform System of Accounts. Under this approach, there is no requirement to show each debt issue separately, which eliminates a burdensome requirement adding no accuracy to the calculation.

The calculation of cost of equity is, as the Commission recognizes,³ complicated. While SWBT supports simplifying the calculation of capital structure and cost of debt, the cost of equity is less amenable to simplification. Practically every element of every methodology used to estimate cost of equity is subject to dispute. While the NPRM references two general approaches--the discounted cash flow and the risk premium--it seeks to limit the rules to specific implementation of these approaches to the virtual exclusion of other methods. Given the nature and difficulty of measuring cost of equity, the Commission should permit analysts to use all relevant tools in making estimates. Analysts determine which method or methods to use based on current circumstances, the methods in use in the investment community and the evolving nature of the study of finance. The Commission should avoid past problems of specifying cost of equity methods.⁴ The business world and finance theory are not static. SWBT, like USTA, does not endorse any specific cost of equity methodology. The Commission should not, either.

³ Id., para. 47.

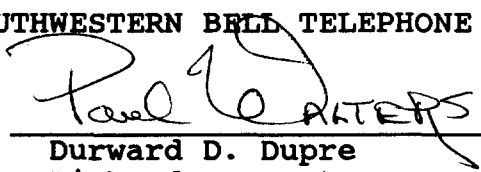
⁴ Id., para. 55-56.

For the reasons discussed above, SWBT fully supports
USTA's comments filed herein.

Respectfully submitted,

SOUTHWESTERN BELL TELEPHONE COMPANY

By


Durward D. Dupre
Richard C. Hartgrove
John Paul Walters, Jr.

Attorneys for
Southwestern Bell Telephone Company

1010 Pine Street, Room 2114
St. Louis, Missouri 63101
(314) 235-2507

September 11, 1992

CERTIFICATE OF SERVICE

I, Gigi Renaud, hereby certify that the foregoing
"Comments of Southwestern Bell Telephone Company" in CC
Docket No. 92-133, has been served this 11th day of
September, 1992 to the Parties of Record.

A handwritten signature in cursive script, reading "Gigi Renaud", is written over a horizontal line.

Gigi Renaud

September 11, 1992

Martin T. McCue
Vice President and General
Counsel
USTA
900 19th Street, N.W.,
Suite 800
Washington, D.C. 20006

Downtown Copy Center
1990 M Street, N.W., Suite 640
Washington, D.C. 20036